of capitalist exploitation. This is what we have sought to establish by summarily examining one aspect of the state's management of the particular commodity labour-power. The aims and forms of this management, whatever the balance between class forces, are circumscribed by the fundamental characteristics of the capitalist wage system.

2. State Management of Money

The management of labour-power calls for intervention which is external to the capitalist circuit M–C–M′, where the value of the reproduction of the peculiar commodity C is not covered by the direct wage. The specific features of the forms of this intervention are determined by capital's requirements for different quantities and qualities of more or less costly wage labour. The same general criteria apply to money, whose reproduction as a general equivalent calls for state action which is at once external to and immanent in the circulation of capital. State intervention does not create the money form – which arises in commodity circulation – but it contributes to its existence as such.

This was the case well before the existence of capitalism, with the development of commodity exchange, in which money inevitably had a role since commodities cannot be directly exchanged for one another. The formation of a fixed standard of price measurement and the minting of coins carrying symbols indicating their origin and potential purchasing power was the source of conflict between kings, lords and merchants, since monetary sovereignty was one of the attributes of power. Inevitably, capitalist money has inherited all this, although it has increasingly tended to become money associated with private credit, originating and developing within the relationship between businesses and banks. The state's role has thus changed. It has come to involve the actions of a central bank, issuing its own money within a banking network whose component parts are related to each other according to regulations established by the state. Before discussing these regulations and examining how, in certain circumstances, their application can be called a 'monetary policy', we need to recall the preconditions and general characteristics of the state's management of money within capitalism.

I: The Forms of Money

(*i*) *Commodities, Money and Credit*

In *Capital*, Marx's method involves beginning with 'antediluvian' forms of the capitalist circuit, by examining money within commodity circulation, where use values become exchange values. The circuit C–M–C (commodity-money-commodity) is thus analysed before the circuit M–C–M'.

Commodities are not exchanged directly with one another. Since they are the products of useful labour, they differ physically from one another, as a table differs from a pound of corn or from a hat. These heterogeneous objects become commensurable when they acquire an exchange value, as a result of work carried out and realised within specific social relationships. They become, in other words, the products of abstract labour, creating exchange value, which, as an expenditure of human energy, is 'the labour of isolated individuals', as Marx put it. Abstract labour is, in other words, the result of a decomposition of social labour into independent individuals who have nothing in common other than their quality as suppliers of labour. 'Only the products of independent, private labour appear as exchangeable commodities.' Thus the commodity is not just an economic object; it implies the existence of specific social relationships.

> Private labour, that is to say the different components of the process of social labour, has to establish its social identity. This happens when the products of this labour are exchanged upon the market.
>
> To take an isolated, accidental transaction: x amount of A = y amount of B. The producer of A has produced what, in his eyes, is a non-use value (he gets rid of it); it is an exchange value upon the market. This exchange value only exists because it represents a use value for the owner of B. This relationship is represented by the equivalence of this exchange value to its opposite, the use value B. The commodity B, whose use value expresses the exchange value of A, is called the equivalent.
>
> Now let us take generalised exchange. One commodity whose substance will serve to express the exchange value of every other commodity, will become the general equivalent. This general equivalent function, which is performed by gold because of some of its physical properties (use value), is an essential attribute of money, to which, in the last instance, all its various specific forms are subordinated. There is nothing about the nature of gold which makes it money; rather, it is the nature of the social relationship which is money which explains the importance of gold.
>
> This 'polarisation' between money and commodities is expressed by the need for commodities to convert themselves into money. Thus the decomposition of social labour, or a 'social relationship', takes the form, in determinate conditions, of 'a necessary relationship between things'.[1]

The need for private labour to be socially validated is expressed by what Marx termed 'the dangerous leap of the commodity', as it seeks to establish its exchange value by being sold for money on the market. This amounts to a 'monetary constraint' imposed by the social conditions of commodity production.

There is never a 'commodity mode of production', but in any economic and social formation in which commodity production and circulation exist, the problem of the relationship between the prevailing mode of production and commodity circulation arises. There is no sense in attempting to define capitalist commodities as the only 'genuine' commodities, and calling any others pseudo- or quasi-commodities. The same is true of money, which is inseparable from commodity circulation. In the first place, any social formation in which a general equivalent exists has certain institutions and social characteristics adapted to this purpose. On the other hand, the way in which the general equivalent functions is affected by the dominant relations of production. These two aspects make it necessary to study capitalist money and its management by the state with reference to the constraints of commodity circulation on the one hand, and to the credit system, which is peculiar to capitalism, on the other.

The various functions and forms of money have to be analysed without losing sight of the question of the reproduction of a general equivalent against which all commodities can be exchanged. The transaction C–M (commodity–money e.g. the sale of a table for 10 gold pieces worth £10), is possible through the establishment of a relationship of equivalence between C and M, M being the measure of the exchange value of C, and expressing, because of its monetary function, its price. The scale of measurement determines the relationship between the various fixed, homogeneous monetary units (the weight of 10 gold pieces thus represents 10 times more than that of 1 piece). In commodity circulation a relationship occurs between a certain quantity of gold and a

monetary unit, in which the name (sou, livre, dollar, franc), and the rate (in 1960 when parities were still in existence, one pound sterling equalled 2·48828 grams of gold, one dollar 0·888671 grams, 1 franc 0·180 grams – remembering that 31·10348 grams equal the standard international unit of one Troy ounce) vary with circumstances, but have always been underpinned by an institution of some sort. This is the first type of state intervention which is co-extensive with the sovereignty of the state. It amounts to the determination of an official rate for at least one of the forms of money – that minted or issued by the state – in circulation within a given area.

(*ii*) *The Monetary Pyramid and the Role of the State*

From a perspective involving the assertion of monetary sovereignty, state management of money, although differing considerably at various historical stages, appears to be 'repetitive':

> One could, for example, compare the French royal edict of 1314 issued by Louis X, which restricted the right to mint new coins to the state, with the English Bank Act of 1844, which restricted the right to issue banknotes to the state-regulated, but private, Bank of England. In both instances private mints or banks were curtailed, or prevented from pursuing their own activities, as a result of a policy of centralisation in which money, at least in one of its forms, appears as an 'attribute of the state'. In the same way, the monetary adjustments (devaluations and revaluations of metallic money) performed by the French and English states until the early eighteenth century, resemble the devaluations and revaluations of national currencies carried out after the first world war, even if their effects were totally different.[2]

This does not mean that the state actually controls money, or is able to determine its global quantity and hence (to adopt a monetarist position) its value. It implies rather, that the state is necessarily involved in the reproduction of money as the general equivalent. This involves ensuring that the various forms of money in general circulation at any given moment can be exchanged for one another at a given rate. A seller who is paid by a cheque worth £10 must be able to obtain a £10 note from the central bank, or ten £1 notes from any bank in any part of the country, whether in London or Manchester. Since there are several sorts of money in circulation within national boundaries at any

given moment, the state has merely to guarantee their quality as money, by ensuring that they can be converted into the form of money for which it has responsibility. Since, in the second place, there is more than one state, it is necessary for the different national currencies to be convertible, and this implies the existence of an international money issued according to regulations established by the various national states.

If we define private credit money (commercial bank deposits held by the public), national currency (the sum of banknotes issued by the central bank and bank deposits) and international money as the three principle forms of money within the capitalist mode of production, then the problem becomes one of interpreting the manner in which their pyramid-like mode of articulation – which is accepted in most descriptions – actually functions.

Private credit money lies at the base of the pyramid. Its existence arises in transactions between banks and entrepreneurs. An entrepreneur might borrow funds from his bank to cover his initial outlay. He would have to repay the bank within an agreed limit, and would be able to do so provided that he sells his commodity. This transaction conforms to the movement of the circuit of capital, which begins with the transaction M-C, in which the money capital M might belong to the entrepreneur himself, or be borrowed. At the end of the circuit M-C-M′, the bank has to be repaid by the entrepreneur, thus settling the debt. In this way, private validation of entrepreneurial action anticipated by the use of credit has become an effective social validation.

The funds used by the entrepreneur to cover his initial costs were, however, issued by one private bank. If transactions are to take place at other than a limited local level, convertibility of deposits between different commercial banks is necessary:

> Each bank has its own money, its own general equivalent, valid within its own circuit of transactions. Convertibility between the different banks' money can only occur with the mediation of a national currency, which is the money of the central bank, the site at which bank funds can be converted into the national currency. Convertibility thus means a relationship of equivalence between symbols of value, or a general equivalence between private bank moneys and one unit of account, the national currency.[3]

This is a necessary, if insufficient, prerequisite of 'the verification of the reproduction of the general equivalent by, in the last analysis, the central bank'.[4]

The existence of money issued at a fixed rate thus brings us back, through the relationship between private and national currencies, to the immanent and external quality of the state's management of money. If it was not possible to centralise the conversion of the money issued by private banks, in conformity with certain rules, monetary circulation would be chaotic and would impede the development of transactions. During the nineteenth century, some process of monetary centralisation, related to the creation of certain institutions linked to the state, took place in every capitalist country. The development of banking systems connecting private banks to the central bank by certain established regulations made it possible to ensure that different banks' currencies could be converted into the money issued by the state. Things have not changed, or only to the extent that convertibility has been modified, along with the forms of money, as we shall see below.

The same is true of 'fixed exchange rates' between national currencies and international money. Thus, in the event of the rate of exchange being tied to the dollar as the unit of account, a central bank would be obliged to manage the national currency within agreed limits. If the official rate of exchange was 50p = $1, then the central bank would be expected to maintain fluctuations within a limit of 2·25 per cent of this rate. It would have to buy dollars if the national currency fell too far, or sell them if it rose above the agreed level of fluctuation. There is therefore a process by which national currencies are 'verified' or defined in relation to an international monetary standard.

Just as private bank funds have to be defined as money through convertibility with the money of the central bank, which forms the second level of the pyramid, so the various national currencies have to be convertible. 'The currency market is the place at which this occurs. The need for some universal money gave rise to the central banks' obligation to balance their accounts.'[5] Thus, the second level of the monetary pyramid calls for the existence of a third level – international money. Its existence is required mainly because of the incapacity of national currencies to serve as a means of payment for settling imbalances between different nations. Just as one private bank cannot settle its debt with another private bank by drawing upon itself (which would simply be a new debt, rather than a settlement), so no central bank can settle its national debt towards another country by issuing the national currency. The United States, which has actually used this technique instead of an effective system of monetary settlements, was able to do this by taking advantage of the situation after the second world war, which left it with enormous gold reserves and the dollar as the dominant currency. The huge expansion of its dollar indebtedness does not, however, amount to a monetary settlement in any way; rather, it represents a 'continually deferred promise to pay'.[6] Thus the third level of the pyramid – international money – is currently in a state of turmoil, since gold no longer has the function of universal money, but has not been effectively replaced.

Before discussing changes in the state's role (mainly in the aftermath of the Great Crisis of the 1930s), it should be emphasised that none of the three types of money (private bank money, national money, and international money) has greater importance within the monetary hierarchy than the others, or can be seen as the real Money. The pyramid-like structure of their relationship means that money at a lower level of the hierarchy needs the money of the higher levels in order to reproduce itself as money. All of the components of the system depend upon each other. There is no reason to attach greater weight to private bank money (as the banking school does), to central bank money (as the American quantity theorists do), or to international money (as the gold-standardists do). The reproduction of money as a general equivalent requires the interplay of all three levels.

II: Regulations Governing Money

(i) *Changes in Legal Tender*

The manner in which the three types of money have interacted has varied on a number of occasions: firstly with the formation of effectively centralised banking systems, and then with the elimination of gold from first national, and then international, circulation. These changes are interrelated, since the formation of centralised banking systems closely followed the adoption of gold as a monetary standard, a reserve currency and an international money.

(a) National Currencies in the Nineteenth Century

Around 1850, Marx described the English banking system in the following terms: 'The central bank is the pivot of the credit system; and the metallic reserves are the pivot of the bank.'[7]

At that time, free convertibility of 'paper' currency into gold

was guaranteed by the central system insofar as the prevailing economic climate allowed. The Bank of England, which was in statutory terms a private bank, functioned according to legally defined regulations, particularly after 1844. The quantity of bank notes issued had to conform to the quantity of stipulated gold reserves. This stock represented the central reserves of the London and provincial banks. The question which then comes to mind is why this sort of centralisation, embodied in an institution working according to certain defined rules, was necessary. Why was it not possible for each of the private banks themselves to have guaranteed the convertibility (into gold) of the money which they issued?

Past events offer some explanation. It became clear, in the light of what occurred in England during the 1820s, and the United States until the late nineteenth century, that competition between private banks, in the absence of a central institution regulating credit, disaggregated the national market, giving rise to uncertainty of payments and very dear credit. What then arose was a series of substitutes for a central bank, such as the great New York banks of the period before the establishment of the Federal Reserve System. This rather lame system undermined the dollar as a national and international currency vis-à-vis the pound sterling. It was not possible to do without a regulated central currency and confine tensions related to the reproduction of the general equivalent to the two levels of the private banks on the one hand, and the national reserves of gold on the other.

Central management of monetary crises thus acquired two characteristics. On the one hand, the devalorisation of credit was transferred to the private banks and their clients, if the central bank refused to act as lender of last resort, in order to avoid too great a reduction of its reserves. Alternatively, the central bank could temporarily suspend convertibility into gold; the resultant temporarily irredeemable paper currency (*cours forcé*) did not prevent economic and monetary crisis, but averted a general suspension of payments, since central banknotes were still generally accepted. The system was thus geared in such a way that the weight of the crisis fell upon private credit, facilitating the necessary capitalist restructuring without undermining the national currency. Undoubtedly the centralised role of the Bank of England was the expression of a certain compromise between different groups of capitalists: if Manchester represented industrial capital and London interest-bearing capital, if the 'banking school'

sought to emphasise accumulation, while the 'currency school' sought to preserve a certain equilibrium,[8] at least all interests were prepared to accept a form of management which would allow for the suspension of some of their own principles in the event of a crisis.

If the use of irredeemable paper currency (*cours forcé*) was an exception for most of the major capitalist currencies during the nineteenth century, this has no longer been the case since the first world war. In the first place, gold is no longer to be found in internal circulation; individuals can still buy it on the private market, but it no longer has any domestic convertibility; the practice of inconvertible national currencies has become usual and general. Subsequently, the role of gold as an international monetary standard has been called into question; after 1922, the 'gold exchange standard', which allowed strong currencies to co-exist alongside gold in the central bank reserves, was agreed. In their turn, these currencies – the pound sterling after 1931 and the dollar after 1971 – have ceased to be convertible into gold. Currently, in the absence of a new international currency, a system of 'floating exchange rates' has come into being and is currently the sole means by which national currencies can be 'verified' on the international market. The nature and implications of these changes require some further specification.

(b) Irredeemable Currencies and the 'Formal Possibility' of Inflation[9]

When notes issued by a central bank can no longer be freely converted into gold at a fixed rate, then an irredeemable legal tender (*cours forcé*) has been established. Thus, according to a governmental decision dating from the first world war, 'the *Banque de France* is relieved of any obligation to reimburse its notes in specie'. The mode by which private bank money and central bank money was articulated was thus redefined, as was the relationship between the national currency and international money.

When 'paper' money is convertible into gold, it is usually exchangeable at a fixed rate which is little different from the price paid for gold bars by the central bank. Unrestricted convertibility of notes into specie is linked to an absence of restrictions upon rights to mint or issue currency, applicable to both private and central banks. Thus, if £1 were to equal 1 gram of gold at the official rate, the central bank would be buying all the gold offered

to it at £1 a gram. This would also be the price of gold on the open market. Consequently, the official rate of exchange[10] functions as a leading indicator of price movements of gold. In the event of an irredeemable domestic currency the situation would differ. The legal rate of exchange (i.e. £1 = 1 gram of gold) would not change. On the international bullion market, however, there might be a different 'price', (e.g. £1 = ½ gram of gold). In this situation, it is possible for a national currency to 'declare its independence' from international money, at least partially and provisionally, although this separation is reflected by either an over or undervaluation of the national currency in international terms. The problem is thus relocated at the international level; but first we must show what occurs within internal circulation and, for this purpose, we need to examine the new relationship which arises between private bank credit and central bank money.

Whatever the character of central bank currency (whether convertible or inconvertible), credit makes it possible to defer the moment of final settlement. We have already seen how an entrepreneur can make immediate use of money borrowed from a bank, while he has only to repay it after three months. In other words, the bank anticipates the social validation (realisation) of the commodities which will be produced: it assumes that the commodities will be sold and that the entrepreneur will be able to repay the advance from the proceeds of the sale. To refer to the circuit M-C-M′, one might say, in more abstract terms, that the bank which advances M is performing a private 'pre-validation' of private labour, while the real social validation occurs when the product (C) is exchanged for M. The bank has acted at its own risk: hence crises of realisation are naturally complemented by crises of credit and banking collapse.

When the national currency or money issued by the central bank is irredeemable, a crisis of realisation can take a different form – that of inflation. Private banks have to be able to convert their notes constantly into those of the central bank. The notes issued by the central bank to allow for the conversion of private bank funds represent a social validation of the anticipated private returns of both bank and entrepreneur. But on the one hand, notes issued under a system in which currency is no longer freely convertible into gold are not the expression of an already produced commodity; on the other hand, in so far as they represent an indirect anticipation of a commodity about to be produced, embodied by the symbols of the bank, these notes only amount to a 'pseudo-social validation of private labour'.

> If the form of managing money as irredeemable currency creates a mechanism of social validation of symbols of credit by anticipation, then the real equivalence of this money to gold becomes impossible. The decline of the value of money is expressed in terms of a continuous fall in its actual gold price, as against its legally defined rate. The obvious result is a general increase in the price of commodities as expressed in the national currency. But this increase is not uniform. There is no automatic validation of symbols of credit in the event of a crisis of realisation; the process responds to the measures taken to manage the central bank's currency, which are designed to avert the destruction of the national currency.[11]

Inflation is the form taken by a crisis of realisation when the social validation of private labour is carried out through the state, as issuer of inconvertible banknotes.

Credit itself loosens the bond between money and commodities, just as it slackens the link between income and expenditure. Combined with an irredeemable central bank currency, it gives rise to a reduction of commodity circulation. Conversion of private credit into money issued at an irredeemable legal rate is not a preliminary guarantee of the conversion of commodities into money. This situation favours a permanent flight from the present into the future, a quest for future capitalist production in order to escape the possibility of overproduction in the present. Inflation prevents sharp, savage crises; it softens their impact. It makes it possible to transfer the risk of the non-realisation of commodities and the devalorisation of credits to everyone using money, so that the risk is transformed into a devaluation of the national currency. If the national currency could actually be converted into gold, the risk would be confined to the level of the capitalist sectors of production and the banks, and would manifest itself in terms of bankruptcies and unemployment. The irredeemable nature of the national currency does not eliminate the possibility of these eventualities; they are merely deferred. It allows for the diffusion of their effects to sections of society outside of the capitalist sector, through the devaluation of the national currency. 'Inflation occurs when the primary economic contradiction is evaded, by displacing production defined in the narrow sense, and relocating it within the whole terrain of commodity circulation, where classes other than the two main ones become involved.'[12] If, however, the

accommodations agreed between 'the two main classes' are undermined, then inflation changes and becomes 'more explosive' instead of 'moderate'.

The inconvertible regime established and managed by the state makes it possible to give a new monetary form to capitalist crises of realisation. Instead of a collapse of the price of commodities, they can actually rise, as the national currency depreciates. The state's managerial role thus becomes somewhat different. Before discussing the extent to which we can now define a strategic sector and speak of monetary policy, we need to examine the third level of the monetary pyramid – international money – and its relationship to national money under an inconvertible regime.

(*ii*) *The Problem of International Money*

National currencies which were convertible into gold in the nineteenth century had to be managed by central banks, because of the way in which that money was defined in terms of quantities of gold (in other words, its parity), and the existence of a metallic reserve adequate to the requirements of national and international circulation. The advent of irredeemable domestic currencies was accompanied by a greater flexibility in the international management of foreign currencies by the central banks. The 'gold-exchange standard' established after the first world war, allowed the central banks to stock their reserves with both gold and currencies convertible into gold, thus providing a sort of credit mechanism between central banks which permitted deferral of final settlements in gold. The form of the state's management of money thus came to resemble the system of private circulation more closely.

The system was able to function for as long as one major currency remained convertible into gold at a fixed rate. Thus, after the second world war the organisation of international settlements was based upon fixed rates of exchange of different currencies with the dollar, which itself was convertible into gold. Devaluations or revaluations required the sanction of the International Monetary Fund, which administered the system dominated by the United States. The abolition of the convertibility of the dollar between 1968 and 1971 has undermined both the position of gold as the world monetary standard and final means of settling imbalances of payments, and that of the dollar as an international reserve currency and a money of account. This was both a reflection of the crisis of American hegemony at the monetary level, and a harbinger of the economic crisis of 1974–75.

In the absence of a genuine international bank issuing an internationally valid currency, no existing currency has been able to replace gold and the dollar. The bonds issued by the International Monetary Fund (Special Drawing Rights, or SDRs) are no more than a new form of international credit, and not a means of monetary settlement.

Does the system of floating exchange rates in operation since 1972–73 make it possible to dispense with the need for international money? If it did, this would represent a decisive change in the forms of monetary constraint and management of money by the central banks. If the system actually worked, it would amount to a trend towards the abolition of all state intervention upon the exchange rates. The 'invisible hand' of the currency market would replace state regulation of the national currency, leaving the central bank with no responsibility other than that of supplying private demand – to whom the reserves would be transferred – with money. Without international money, in other words, the monetary pyramid would mean something different.

Even if one accepts that the *de facto* monetary hegemony of the floating dollar constitutes a solution within the framework of the 'invisible hand', the fact that the float remains a 'dirty' one, calling for intervention by the central banks on the exchanges and international co-ordination, has given rise to problems. In global terms, the cost of interventions to limit fluctuations amounted to 77 billion dollars between 1973 and 1976, of which 5·6 billion came from the Federal Reserve Bank of New York. The situation has actually amounted to 'a combination of flexible exchange rates and official governmental contacts', as the American secretary of the Treasury put it.

This continuation of state intervention is an invitation to question the consistency and coherence of the system. For it is not just the result of the 'dirty float', implying that a 'pure' system of floating exchange rates is a real possibility. In fact, such a system would not be able to function as a monetary system on the international level. Just as the different banks on the national level require a national currency with which their particular deposits are by definition commensurable, and which allows them to settle the debts which arise between them, so an international money is needed by the different nations; it forms a standard against

which the state's management of the national reserves (which the floating exchange rate should have rendered redundant, but which continues to exist) is defined.

Two related points – the standard used for fixing rates of exchange between the various national currencies and the means of settlement between nations – require consideration. To take the problem of the standard used for fixing exchange rates first: the franc, for example – which is a national currency – is now defined in terms of another national currency – the dollar – in purely relative terms (running from between 3.25F to 5.20F to the dollar under the floating exchange rates between 1973 and 1975), which depend upon the relationship between the French and the American balance of payments. The dollar cannot, however, also function at the same time as an 'absolute' measure of the rate of exchange of the franc and simultaneously fix the relative rates of exchange between the franc, the pound or the lira, etc. . . . Just as a weighted bundle of currencies can only serve as a standard for these currencies themselves, as the abortive attempt involving SDRs (Special Drawing Rights) has shown, so a currency drawn from a series of national currencies can only serve as a standard for these currencies. What is needed, rather, is for all of the national currencies to be defined in terms of a reserve currency with an international character. This is what would happen if, for example, the franc and the dollar were both defined in terms of a certain specified amount of gold, from which it would be possible to extrapolate the commensurability of the two currencies and write that 5F = $1.

This yardstick would make it possible to calculate the state of the balance of payments between the two countries and pose the problem of the settlement of debts due by one country to another. If the country happened to be the United States, and it had a deficit with France, in which currency would the settlement take place? If the settlement was made in dollars, or in other words, in its own currency, it would not be a settlement, but a new credit given by France to the USA. If the deficit was met by an international money, like gold, it would be a genuine settlement. This second procedure having been discarded since the 1960s, because the United States would have lost its entire gold reserves and more, the first mode of operation is all that exists, at least in the case of the USA, although in modified form since the adoption of floating exchange rates after 1973. The dollar, while remaining the

dominant currency, is now – in principle – subject to appreciation or depreciation in the foreign exchange markets. After the experience of devaluation in 1971 and 1973 – the first since 1934 within the framework of fixed exchanges – it is now subject to the sanction of the market within the framework of floating exchange rates, where the supply and demand for currency are able to confront one another directly. In this situation, the dollar ought in principle, in the event of a deficit, to fall until the re-stabilisation of the balance of trade – through an increase of exports and a fall in imports – had eliminated the foreign deficit. This 'pure' system – involving the elimination of balances of payments, official reserves and the intervention of central banks – would amount to the abolition of national currencies as such. They would become instruments of exchange used by private concerns, with a status which was no different from that of any other goods.

Experience has undoubtedly shown that the depreciation of the dollar has favoured exports of American goods, to the disadvantage of her Japanese and European competitors.[13] But the problem of the state of the various national balances of payments, and the continued existence of monetary reserves held by nations other than the United States have not been eliminated. Moreover, there is no nation which has discarded its gold reserves, a fact which reveals much about both the problem of the relationship between different national currencies and the question of international settlements.

> Even in its currently ostracised condition, gold remains an embarrassing reminder of the general monetary deterioration and, when the absence of an international system has finally exhausted financial opinion, when the inconveniences of the floating exchange rate have become clearer than its advantages, then the recent rise in gold prices will make it easier to define its place as one of the pillars of the future monetary system, independent of any of the currencies which it serves.[14]

In any event, neither a standardised system of exchanges, nor a system of international settlements can logically be realised within the framework of a floating exchange rate system.

By adopting a system of occasional (rather than permanent) management of their reserves within the framework of floating exchange rates, the central banks are able to partially transfer the monetary risks arising from fluctuating rates. They have been transferred from the national monetary reserve to the commercial

banks and other private financial institutions. The bankruptcies and bank failures arising from currency dealings in 1974 are partly explicable in these terms. The absence of continuous central bank intervention, which in the nineteenth century served to place the risks of monetary convertibility upon the private banks, now affects private holdings of foreign currencies. Yet this transfer of the risk (a new form of monetary sanction) only serves to attenuate, but not resolve, the problem of the validation of national currencies by an international money.

Indeed, a solution becomes more remote by imagining that the problem has been eliminated with the system of floating exchanges. The system has led to a breaking up of international markets, as part of the new form of competition between capitalist nations. The collapse of the fixed exchange rate system was one of the results of the aggravation of competition between the United States on the one hand, and Japan and Western Europe on the other. The erosion of American domination has modified the role of the dollar. Before 1971, its over-valuation in terms of other capitalist currencies was one of the preconditions of American investment abroad, and was complemented by a degree of international financial centralisation under the control of the USA. After 1973, the relative (and selective) depreciation of the dollar has favoured American exports of goods and provoked fierce commercial competition. This competition appears to be linked to a certain fragmentation of markets, as a number of indices suggest.

In the area of commercial transactions, *The Economist* has reported a revival of truck ('Back to Barter'),[15] and mentions the example of 'the recent French agreement to exchange a series of industrial products, hydro-electrical and armaments installations for supplies of oil from Iran', which 'is only one example of a flood of bilateral barter operations between the West and the Arab oil producers.' This increase in bilateral operations, which has been attributed to the oil crisis and the threat of a world economic recession, has to be set against the monetary instability embodied by the framework of floating exchanges. Another sign of the same process is indicated by the possible decline of transnational financial markets, like the Euro-dollar market, and their replacement by 'low-risk countries' which amounts to a certain 're-nationalisation' of financial markets.[16] Finally, Bourguinat has drawn attention to the spread of rates of exchange of a given currency during the first two years of floating exchanges:

> It seems that each nation has now adopted not one but actually several exchange rates. We are no longer in an age when a currency like the dollar, for example, was, with some slight variations, either 'strong' or 'weak' in terms of the main trading partners of the USA almost everywhere. Thus, between mid-November 1974 and mid-February 1975, while the dollar fell by 12 per cent against the Swiss franc, and by 9–11 per cent against those currencies tied to the European 'snake', it fell by only 4 per cent against the pound sterling, by 2·5 per cent against the yen, and actually rose by 1·5 per cent against the Canadian dollar. This almost universally noticeable range of rates reflects the effects of the new permissive conditions governing the behaviour of national economies upon the exchanges . . . One can now understand more clearly what the logic of the floating exchange rate system should be. For any one country, the foreign market now appears to be a mosaic made up of highly heterogeneous parts, each endowed with very different degrees of accessibility and each subject to considerable changes.[17]

Thus, under the floating exchange rate system (which needs to be analysed with reference to certain forms of the internationalisation of capital, which is not our purpose here), and with the disappearance of a means of validation of national currencies by an international money, signs of a fragmentation of international transactions – whose homogeneity presupposes the existence of a common monetary standard – have appeared. Paradoxically, the highest form of an exchange market, where all that exists is the supply and demand for currencies, untrammelled by state intervention, has coincided with a decline in the unity of the international commodity and capital markets. This indicates that there are no 'pure' monetary markets, just as there is no 'pure' capitalism. The functioning of the *monetary* system calls for state regulation of the national currency with reference to an agreed international monetary standard.

III: The Strategic Sector and Monetary Policy

So far, we have examined the general rules governing the state's management of money – and some of their modifications – with reference to the three types of money within capitalism: private bank money, central bank money and international money. One of these three forms requires state regulation, and this necessarily affects the manner in which the different levels of the monetary

pyramid are related to each other. Taken together, private bank money and central bank money make up the national currency. If £1 from bank A can be exchanged for £1 from bank B, or for a central banknote worth £1, then their commensurability implies the existence of a common national currency. This is defined by the money of the central bank, which guarantees that the symbols of value issued by private banks can be converted into symbols of national value. It is, however, on the international exchange market that the convertibility of a national currency into other national currencies is demonstrated, and these adjustments have to be set against some universal standard of measurement. State management of money is thus implicit in the interrelationship of the different levels of the monetary pyramid, but it is not reducible to a purely private or internal activity. Without it, private bank liquid assets could not be measured directly in terms of an international monetary standard. The development of a national monetary space or region – the site upon which the different levels are articulated in relation to one another – is what transformed the banks of London into the Bank of England and those of Paris into the Banque de France.

These processes are inseparable from the formation of national capitalist markets within the international monetary market.[18] The pyramid-like structure of capitalist money and its relationship to the credit system reflects both a centralisation of finance[19] and a concentration of the management of the means of payment at the national level. Changes in the rules of financial settlement and management, in relation both to modifications of capitalist accumulation and to the development of new forms of concentration and centralisation, have not invalidated this double characteristic of the credit system. The centralisation of interest-bearing money capital (i.e. M-M′) would be impossible without a complementary concentration of the management of the means of payment. The strategic site of this double characteristic of credit is the banking system. Its specific function thus requires some definition, because it is here that the state's management of money can, in certain conditions, become monetary policy.

(*i*) *Finance Capital and Banks*

There is no single formulation which covers all aspects of the relationship between capitalist finance and the state's management

of money, and it is important to separate the different, if interdependent, practices involved in this relationship.

The concept of finance capital can serve as an introduction. It is used by Marx mainly to indicate money capital 'producing interest', or capital lent to industry, entitling its proprietor to a share of surplus value, which takes the form of interest. This concept of finance capital[20] contains several different, if interrelated, aspects. When he discusses the various tasks performed by capitalists, Marx writes firstly of 'Geldhandlungskapital',[21] meaning those functions of capital concerned with the management of money capital (the work of company treasurers, accountants, investment advisors, etc.), a function which, when centralised, makes for a reduction in the 'costs of circulation' of capitalists as a whole. On the other hand, when he discusses the rate of interest as a part of surplus value, Marx distinguishes the industrial capitalist, who receives profits, from the 'Geldskapitalist',[22] who possesses money lent as capital whose revenue, in the form of interest, depends upon the balance of forces between borrowers and lenders. Here a particular monetary function of capital, becomes the activity of a discrete group of capitalists with their own specific interests. The division of surplus value into profit and interest is based upon the ownership of money capital by groups other than those associated with industrial capital. The concept of finance capital thus designates both a management function for the capitalist class as a whole, and a section of the class lending money as capital. Both of these aspects merge in the activities of the banks, in so far as they centralise the management of the circulation of money capital and its productive investment. In either case, these functions chiefly concern relationships among capitalists.

If, however, the banks are taken as one expression of finance capital, their role in the circulation of money capital merges with their role in general monetary circulation. Hilferding's definition of finance capital[23] as 'banking capital, therefore money capital, which is actually transformed into industrial capital' certainly emphasises both financial centralisation and financial control of industrial capital. The problem with his definition, however, is that it confuses centralisation and control of capital with mastery over financial circulation. This latter, despite its relative autonomy, is necessarily bound up with monetary circulation as a whole, as is credit with the means of payment. It is therefore valuable to distinguish between two broad areas within the analysis of

finance – that of capitalist commodity circulation, and that of finance capital – before discussing the strategic position of the banking system at the interface of the two.

Capitalist commodity circulation is the sphere of final settlements (*that of the social validation of private labour*). It involves monetary relationships between capitalists and wage earners as much as among capitalists themselves. 'Free' wage earners are paid monetary wages in order to buy whatever is required for the maintenance of their labour-power.

> Money in the hands of workers has to function entirely as a general equivalent, so that the purchases required for the reconstitution of the general equivalent can take place regularly within general commodity circulation. It is thus absolutely impossible to imagine a closed credit system, detached from any monetary base, in which there were only capitalists exchanging private credits.[24]

This type of circulation, partially analysed by Marx, would imply centralised management of the means of payment, which could only occur within the context of a banking system in which the different sorts of money were directly bound up with one another.

> There is no direct relationship between the rhythms of expenditure by wage earners and the turnover times of capitals, which themselves vary considerably. This is why the ability of the banks to meet the need to transform their symbols of credit into a general equivalent requires the centralisation of the banking system, and the insertion of each bank into a large number of cycles of capitals in order to take advantage of the varying intervals between monetary inflows and outflows, and to concentrate as large a quantity of temporarily idle money.[25]

An organism adapted to the management of means of payment within the framework of capitalist commodity production necessarily calls for a number of different levels articulated upon one another. As Marx pointed out in his criticism of certain reformist utopias,[26] there can be no single national bank which would enable individuals to establish their independence from the conditions of private exchange and leave them free to continue to produce on the basis of private exchange.

The second major area for analysis designated by the term 'finance capital' consists of a form of centralisation of money capital which permits investments and disinvestments of capitals belonging to concerns exercising a proprietorial control over productive (*industrial*) *capital.* Finance capital is firstly directly concerned with the relationships among capitalists (even if the state is involved, through subsidies or special loans). The form of management at issue here is one concerned with the private management of assets, which is reflected in the degree of autonomy of financial circulation in relation to industrial production:

> There is a total separation in financial circulation of money supplied as capital, which is alienated once and for all by its owner, from the right to appropriate a share of the profits of the firm which results from this supply. This separation . . . makes it possible to understand the appearance within companies of controlling interests who, on the basis of commitments of limited amounts of money capital, exercise control over the valorisation of productive capital of a much larger size. In addition, it also serves to enlarge the role of financial circulation. Because titles of ownership circulate, there is a tendency towards a modification of property rights, and the creation and dissolution of the most highly integrated capitalist partnerships quite independently of the cycle of productive capital. This flexibility concerning the sites propitious to the valorisation of money capital characteristics the mediating function of finance capital.[27]

This flexibility makes for what is now termed 'the redeployment of capital'. The term offers a different perspective upon the relationship between capitalists and workers, in so far as the redeployment of capital can go hand in hand with a restructuring of the working class. Thus, while productive relationships were involved in the previous case because of the existence of the labour force within capital and the reproduction of waged labour through commodity circulation, here they are involved indirectly: through the physical distribution of the labour force as a function of the valorisation of capital.

The two aspects of our analysis of finance – capitalist commodity circulation and finance capital – refer to different monetary and financial practices. Both of them, however, are derived from the credit system in the broadest sense. The only institutions which combine both the management of means of payment and money capital are *the banks*. For this reason, *the banking system is the strategic sector of the credit system.* As the site upon which the formation and regulation of credit is located, it lies at the junction of the various relationships outlined above, between capitalists and wage earners, and between capitalists themselves. This endows it with a key position within the totality of capitalist social relationships, and

explains its development in relation to part of the state apparatus. Moreover, whatever the forms and public circuits involved in finance, state management of money as a social relationship requires a centralised banking system as its main form of leverage. We have examined the reasons which give rise to the way in which the different types of money are articulated, and the necessary role of a national currency managed by a central bank. To the extent that money and finance are related to one another in different ways within the banking system, this latter is undoubtedly a strategic sector calling for state action.

(ii) *Liquidity and the General Equivalent*

Systems in which currencies are irredeemable have replaced convertibility of credit money into gold by the 'liquidity constraint', which concerns both the convertibility of bank money into the national currency and the possibility which the banks have for enlarging their credits. This liquidity constraint generally amounts to a relationship between the banks' monetary means of settlement and their commitments. It is expressed in terms of a number of 'ratios' internal to the banking system: between liquid assets and total assets, between capital and assets and between loans and deposits.

Certain empirically determined ratios have to be observed in order to avoid excessive strains upon the eventual capacity of the banks to finally settle debts. These quantitative ratios have to be of an order which does not undermine the quality of money as a general equivalent. Their regulation falls under the control of the central bank as lender of last resort. But the centralised system of management of inconvertible currency tends to produce a generalised 'over-indebtedness', which is reflected by the banking system. Thus, in the United States since the 1960s,

> any idea that companies may have had of the permissible level of indebtedness has been thrown to the winds, and the same has generally been true of consumers. As for lenders, they have clearly discarded all the principles of prudence in relation to loans, and this is particularly true in the case of the merchant banks. Agreed loans have grown twice as rapidly as deposits, and risk assets (loans and investments) have also increased twice as fast as the banks' own capital.[28]

Thus, the strategic sector, in which capitalist money and

finance converge, can evade the ratios used as indices of the degree of stability and security of credit. The liquidity crisis has raised a question about the viability of the various component parts of the system; it affects the assessment of the real nature of financial assets. The quality of credits, and their capacity to be converted into money, has ceased to be a technical question and has become a political problem.

With the growth of credit in an irredeemable currency system, the formation of a zone of transactions whose validation is guaranteed by the state before being confirmed in social circulation has accompanied the loosening of market-based constraints. But the reproduction of money as a general equivalent, which is the precondition of some degree of monetary constraint (or the social validation of commodity transactions) remains essential. Management of liquidity can give way at certain strategic moments when government policy is exerted upon the quality of money (by changes in parity, or changes in the rules of management themselves). The form of state management of money is both appropriate to its capitalist objectives (meaning a liquidity obligation affecting monetary and financial circulation) and has a particular quality (meaning that the reproduction of the general equivalent implies the existence of public institutions determining the general rules of equivalence).

State management of money has become 'monetary policy' at the same time as 'economic policy' has made its appearance. It remains concerned with the same thing, but its objectives and mode of elaboration have changed as they have been integrated into other forms of state economic intervention. Under no circumstances, however, is it possible to envisage monetary policy in terms of control of the money supply in relation to a given level of demand, which is the usual image favoured by the various neo-classical and neo-keynesian traditions. This image is not a reflection of a real social practice.

This is the case because, firstly, the construction of an aggregate demand function for money (liquid assets) by individual concerns is of no relevance to the analysis. This idea is based upon a notion of money as a good, a financial asset like any other, and evokes the image of the management of a patrimony and an aggregation of portfolio options emanating from individuals considered as 'little banks', to use Hicks' expression. In this framework, money as a means of settlement does not exist, and this

undermines the entire analysis. Secondly, there is no money supply function within the banking system which is simply dependent upon external determination of the quantity of the base currency ('high powered money') by the central bank. This model of the money supply would imply complete control by the central bank over all of the means of settlement, affected by manipulation of the base currency. Management of central bank money is in no sense a matter of fixing the quantity of money issued by the central bank. It is located, rather, within the articulated relationship between the different forms of money – private bank money, central bank money and international money. And this articulated relationship, which does imply certain empirically established ratios, is in no sense a simple redistribution of a given monetary stock (an exogenous central bank money) between creditors and final debtors, producing a given supply of bank credits and a demand for bank deposits by particular concerns. It will be necessary to return to this image of monetary policy, as the more or less successful control of supply in relation to demand for money, as it exists within the dominant economic ideology. For this ideology has its roots in the changes in the management of central bank money by the state which accompanied the advent of 'economic policy'. It is not, however, a reflection, but rather an indicator, of this new practice.

3. The Formation and Formulation of Economic Policy

Until now, the analysis we have followed has sought to reveal two permanent and decisive areas of state intervention within the circuit of capital M-C-M′. Public management of labour-power contributes to the reproduction of its value, which is something required by capital, but not guaranteed by capital itself. As for the reproduction of money as a general equivalent, this calls for state management of central bank money as the national currency lying 'between' private bank money and international money. The circuit M-C-M′, which represents the valorisation of money capital, M, in circulation, cannot reproduce itself without these non-capitalist supports. The areas and rules of state intervention are determined by the requirements of the production and circulation of capital: thus assistance to the poor is subordinated to the obligation to have to work 'to earn one's living'. The forms of intervention, however, have the particular characteristic of meeting norms of regulation defined and established by institutions produced by class confrontation or conciliation, and can thus be anachronistic in terms of the prevailing forms of capitalist exploitation (thus, poor relief is not historically specific to capitalism).

'The only use value which can form an antithesis and complement to money in its quality as capital is labour.'[1] Hence the priority attached to measures designed to reproduce workers and money, which guarantees the use value of the former. It would be instructive to examine the moments at which measures affecting the two coincided. In England during the 1840s, for example, the regulations governing the Bank of England were profoundly modified by the law and, at the same time, new legislative measures were adopted to force the poor in the direction of the workhouses. The law seems to have defined its gold reserves and its reserves of labour-power almost simultaneously. Our objective, however, is mainly concerned with the simultaneous transformation of the